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BEFORE THE ARIZONA CORPORATION COMMISSION

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2007 FEB 16 A 10:41

AZ CORP COMMISSION  
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IN THE MATTER OF THE APPLICATION  
OF ARIZONA PUBLIC SERVICE COMPANY  
FOR A HEARING TO DETERMINE THE FAIR  
VALUE OF THE UTILITY PROPERTY OF THE  
COMPANY FOR RATEMAKING PURPOSES,  
TO FIX A JUST AND REASONABLE RATE OF  
RETURN THEREON, TO APPROVE RATE  
SCHEDULES DESIGNED TO DEVELOP SUCH  
RETURN, AND TO AMEND DECISION NO.  
67744.

DOCKET NO. E-01345A-05-0816

Arizona Corporation Commission  
**DOCKETED**

**FEB 16 2007**

DOCKETED BY

KK

IN THE MATTER OF THE INQUIRY INTO THE  
FREQUENCY OF UNPLANNED OUTAGES  
DURING 2005 AT PALO VERDE NUCLEAR  
GENERATING STATION, THE CAUSES OF  
THE OUTAGES, THE PROCUREMENT OF RE-  
PLACEMENT POWER AND THE IMPACT OF  
THE OUTAGES ON ARIZONA PUBLIC  
SERVICE COMPANY'S CUSTOMERS.

DOCKET NO. E-01345A-05-0826

IN THE MATTER OF THE AUDIT OF THE  
FUEL AND PURCHASED POWER PRACTICES  
AND COSTS OF THE ARIZONA PUBLIC  
SERVICE COMPANY.

DOCKET NO. E-01345A-05-0827

REPLY BRIEF OF  
INTERWEST ENERGY ALLIANCE

The Interwest Energy Alliance ("Interwest") submits the following reply brief in  
response to portions of the Initial Post-Hearing Brief of Petitioner Arizona Public Service  
Company (APS Brief or its Brief) in connection with the above-referenced matter.

**I. Renewables Hedge Erratic Natural Gas Prices and Uncertain Supplies.**

1 Arizona Public Service Company ("APS") acknowledges on Page 115, Section  
2 C.1. of the APS Brief that "renewables may be 'effective' as a hedge due to its  
3 displacement of future gas needs". However APS also states that the real question is  
4 "whether they are a cost effective hedge" and notes that natural gas hedges are less  
5 expensive than acquiring renewable energy. APS notes that a financial hedge to  
6 natural gas prices may be obtained in the marketplace and that "APS' experience in  
7 acquiring renewable resources indicates that such resources require paying a  
8 considerable premium over the cost of conventional energy resources utilizing natural  
9 gas".

10 Interwest notes that APS has only conducted one Request for Proposal (RFP)  
11 to obtain renewable energy. APS therefore does not have sufficient experience to  
12 make such a sweeping generalization that for hedging purposes that "natural gas  
13 financial hedges are cheaper than acquiring renewable energy through RFP's".  
14 Similarly APS witness Ed Fox in response to a question from Commissioner Wong  
15 noted that "APS had not yet conducted an apples-to-apples study of impacts and what  
16 the actual cost of renewable resources are to customers. Transcript at Volume \_\_,  
17 Page \_\_, Line \_\_.

18 In addition Interwest notes that fuel supply availability is as important as fuel  
19 price stability and should be considered as such. Renewable generation resources  
20 such as wind or sun enjoy a ready-made fuel supply.

21 Next APS states in its Brief that "Arizona's renewable resources are limited".  
22 Page 115 Section C.1., Line 19. Interwest asks the Arizona Corporation Commission  
23 (ACC) take judicial notice of the fact that insolation factors in Arizona are some of

1 the highest in the world. In addition the northern part of the state is endowed with  
2 commercial-grade wind resources from Greenlee to Mohave Counties and the  
3 southern part of the state is rich in low temperature geothermal resources.  
4 Alternatively APS notes that being required to increase procurement of renewable  
5 energy may force APS "to procure out-of-state renewable resources in direct  
6 competition with other utilities". APS Brief at Page 115, Lines 20-21. Interwest notes  
7 that APS routinely competes for acquisition of out-of-state fossil-fuel based energy  
8 with other utilities. Why should renewables be treated any differently?

9 Next APS states that "[p]roject specific analysis is required to adequately measure  
10 the economic value of each renewable project". APS brief at Page 115, Lines 21-22.  
11 Interwest notes that that is true of all generation projects or resources, whether or not  
12 fossil-fuel based, and is not a justification to single out and ignore renewable energy.

13 **II. Use of an Independent Evaluator to Review Renewable Energy Resources**  
14 **RFPs'.**

15 APS notes that Interwest "has proposed to *mandate* the Company use an  
16 independent evaluator when evaluating future renewable RFPs". APS Brief at Page  
17 115, Lines 26-27. Interwest notes that it has only suggested that use of an independent  
18 evaluator could be helpful in the RFP bid evaluation process and believes that the  
19 independent evaluator would help avoid some of the issues previously raised in Ms.  
20 Amanda Ormond's Direct Testimony on behalf of Interwest related to inaccurate  
21 costing of integrating renewable energy systems.

22 **III. Implementation of a RFP Schedule for Regular Purchases of Renewable**  
23 **Energy.**

1 Interwest recommends that APS be required to solicit for renewable energy  
2 resources on a regular basis. APS states that “mandated procurement schedules and  
3 procedures would not be in APS’ customer’s best interests”. APS Brief at Page 116,  
4 Lines 21-22. Interwest believes that regular competitive and open solicitations that  
5 seek the lowest-priced power are in the customers’ best interest.

6 **IV. Wind Integration Study.**

7 APS states that any wind integration study will address the appropriate integration  
8 of intermittent resources into the APS system, “Like wind and solar” and makes an  
9 independent evaluator unnecessary. Page 117, Lines 7 and 11. Interwest notes that as  
10 currently proposed, the NAU-led Wind Integration Study will only address wind-  
11 related resources and will not include solar resources.

12 **V. Develop Clean Energy Performance-Based Initiatives.**

13 APS submitted no comments related to Interwest’s suggestion that the  
14 ACC form a study group to consider performance-based initiatives to reward and  
15 encourage APS to procure or obtain clean energy resources.

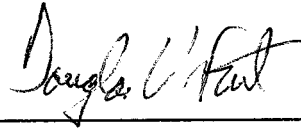
16 **VI. Initiate a Collaborative Process to Develop Clean Energy Performance-**  
17 **Based Initiatives.**  
18

19 Interwest again recommends that performance-based incentives be created,  
20 through a collaborative process, to reward and encourage APS to procure clean  
21 energy resources. The current system provides little incentive for APS to purchase  
22 clean energy resources.

23 A collaborative stakeholder process could be used to evaluate and develop  
24 performance-based incentives and review decoupling of rates from revenues that will

1 encourage APS to procure clean energy resources because it is financially beneficial  
2 for its shareholders. This stimulus is intended to change the current dynamic of  
3 resisting procurement or purchase of renewable energy because the utility does not  
4 earn a rate of return on the sale of electricity generated from renewable energy  
5 resources. If the Commission sees a value in the utility diversifying its generation  
6 resources, conserving natural resources and employing clean energy resources, then  
7 the Commission may want to consider developing incentives to help spur action by  
8 APS. That would be in the best interest of the State as well as APS' ratepayers.

9 Respectfully submitted this 16 day of February 2007.

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20 The original and 17 copies  
21 of the foregoing have been filed  
22 as of February 16, 2007 with:

23  
24 Docket Control  
25 Arizona Corporation Commission  
26 1200 W. Washington  
27 Phoenix, AZ. 85007  
28

29 Copies of the foregoing have  
30 been mailed, faxed, or trans-  
31 mitted electronically as of  
32 February 16, 2007 to:

33  
34 All parties of record

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2 \_\_\_\_\_  
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